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SIPDIS

DEPARTMENT FOR SCA/INSB

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SUBJECT: EXPANDING THE PORT OF COLOMBO: A VIABLE FUTURE SHIPPING HUB?

11. (SBU) SUMMARY: The Government of Sri Lanka sees substantial economic potential in becoming a transshipment hub, and to that end, the Port of Colombo is poised for significant physical growth over the next several years. The port currently has both government and privately run facilities, and it is looking to add a third facility primarily funded by a Chinese company. The Sri Lankan Port Authority (SLPA) believes this growth will position the port as a major international hub. Despite ongoing SLPA efforts to expand the size of the port, there are no current indications that container traffic is poised to increase sufficiently with the port's expansion. Current facilities have existing space for growth in their operations. A rapid port expansion may create excess space with little possibility of near-term use and return on the investment. End Summary.

THE CORPORATE PLAYER AT THE PORT OF COLOMBO

12. (U) South Asia Gateway Terminals (SAGT), the sole private port operator at the Port of Colombo, has increased its business in a down market. In 2008 SAGT handled an average of 1.7 million twenty-foot equivalent units (TEU). Through September 2009, SAGT has already handled more than 1.8 million TEU's with an expected 2 million TEU's by the end of the year. 82% of SAGT's container business involves transshipment to/from India, with the remainder being domestic container traffic destined for locations generally within a 30 kilometer radius of Colombo. SAGT receives four times more revenue from domestic cargo than from transshipped cargo. The world economic crisis has spurred an 18% reduction in domestic container traffic at SAGT while transshipment traffic has risen, in part due to rebates offered to shippers who increase their business at the port. Maersk and Mediterranean Shipping Company S.A are currently SAGT's two primary shippers. SAGT maintains a 16 meter access channel for its 940 meters of berthing space and a 15 meter dredge depth in its harbor area. SAGT also maintains a storage yard of more than 20 hectares and can accommodate 5,500 ground slots at any given time. SAGT currently averages 27 container moves per hour when operating at optimum efficiency.

THE GOVERNMENT PLAYER AT THE PORT OF COLOMBO

13. (U) The SLPA is the Government of Sri Lanka's (GSL) port operator and controls the majority of the Port of Colombo.

In 2008, the SLPA handled only 1.7 million TEU's despite being almost twice the size of SAGT. The port's Harbor Master advised Econoff that SLPA's container transshipment business will see a 10%-12% reduction from 2008 numbers. The SLPA has a maximum capacity of 3.0 million TEU's per year, and is currently running well under maximum efficiency. SLPA has more than 1200 meters of berthing space for container traffic and has an 18 meter dredge depth in its harbor area. 70% of SLPA's business is transshipment (70% of that traffic is from India with much of the remaining percentages coming Pakistan and Bangladesh). The Harbor Master was keen to point out to Econoff that the SLPA cannot pick and choose its customers and it must accept all traffic, large or small, requesting use of its facilities. Currently, the SLPA averages 25 container moves per hour when operating at optimum efficiency, an increase from an average of 18-19 moves six months ago. The SLPA would like to make 75 total container moves per hour per ship. Inefficiency seems to be a significant issue at the SLPA. The Harbor Master commented that SLPA has 12,000 personnel at the Port of Colombo, although it really only needs 6,000 personnel. In contrast the private SAGT has approximately 1,000 workers.

PLANS FOR EXPANSION

¶4. (U) Plans are underway to significantly expand the size of the Port of Colombo with the construction of the southern container harbor in a new south terminal. The port has ample space for future construction of planned east and west terminals. Each terminal will be 1200 meters long with three berths. The dredged depth of the harbor will be 18 meters

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and the access channel depth will be 20 meters. A China Merchant-Aiken Spence consortium is currently the sole bidder for this project. China Merchant will be a 70% stakeholder, Aiken Spence a 15% stakeholder, and the GSL will own the remaining portion as a silent stakeholder. Completion of the southern container harbor should dramatically increase the available space for container business at the port. According to the SLPA, a port operator will be awarded a long-term contract to maintain the southern harbor as well as provide all container-related services. The SLPA hopes that port expansion will position it as a major port hub at the cross roads of East Asia and the west, although no commitments have been made by mainline or feeder operators for new or additional traffic at the port.

¶5. (SBU) The state-controlled Chinese company was able to move in as a majority partner in the South Port project after the Government of Sri Lanka failed to award the bid previously. Two years ago there were five bidders for the South Port project, including large companies such as Hutchensons, Maersk, CMA Hays, and China-Hong Kong Shipping. Aiken Spence was in partnership with PSI, a large Singaporean company, but the government never awarded the contract. There has been local speculation that China encouraged the GSL not to award the contract. The GSL finally re-bid the contract last year, but due to the global financial crisis, the only bidder was the China Merchant-Aiken Spence consortium. Their bid was considerably lower than previous bidders' efforts to secure the southern container harbor contract, so the GSL lost many millions by not accepting the first rounds of bids.

¶6. (SBU) Comment: The GSL's plans to expand the Port of Colombo are ambitious and in line with the "if you build it, they will come theory." Unfortunately, there is no indication that "they will come." In order to become the true international container hub the SLPA wishes the port to be, the port will need to attract significantly more transshipment traffic as well as increased local container traffic. There is no commitment or pledge by any mainline or feeder operators to increase container business at the port. While SAGT seems to be running at close to peak efficiency with room for moderate growth, the SLPA is more than 1.3 million

TEU's short of capacity at its existing facilities. Available capacity will likely grow given ongoing efforts underway at SLPA to retrofit two general cargo berths to handle container shipments. It may provide difficult if not impossible to become the container hub for Asia if a large percentage of existing capacity currently remains unused. GSL plans to expand the port look great on paper, generating many new jobs, but the commercial viability of the expansion project is in doubt. End Comment.
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